New Zealand slides into recession

A New Zealand correspondent
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The New Zealand dollar continued to plunge last week, marked by panic selling in the midst of the currency crisis which hit the Japanese yen and the Australian dollar. The NZ dollar hit US49.40 cents, a 12-year low, before recovering 2 cents following Washington's intervention to prop up the yen.

The local sharemarket also nosedived, with nearly $NZ2 billion wiped off the value of shares in two days. The main share index fell for 12 consecutive days — only the eighth time this has occurred in 40 years. By last week, the sharemarket had fallen by 10.3 percent since May 26, reducing share values by $5 billion.

Then came the announcement during the week that the country's overseas debt had ballooned to $99 billion, the highest on record. Overseas debt is up 24 percent on last year, with the debt-to-GDP ratio at more than 100 percent. This situation makes a downgrade of the country's credit rating by international agencies very likely.

Business circles are warning of recession. The Bank of New Zealand's chief economist, Tony Alexander, said: "The chances of a domestic recession have increased as a result of this most recent fall in the exchange rate. It is going to be very difficult for the majority of people. The unemployment rate is going to go to 8 percent and probably above it. There will be many firms that will fail."

In fact, a recession was developing well before last week's events. According to a National Bank survey, economic activity fell by 1 percent during the March quarter. Unemployment has been steadily on the rise since Christmas.

The lower dollar will dramatically raise the prices of imported goods such as petrol, cars, clothing and machinery. By one estimate, the cost of living for an average family is set to rise by $40-$60 per week.

Working class households are already paying severely for the financial slide. In recent months, New Zealand-based banks have imposed the highest real interest rates among OECD countries. During the past week, the banks raised interest rates on home mortgages to over 11 percent. Home ownership, which has been promoted by the Labour and National parties as the solution to the striving for security by working families since the 1930s Depression, is now under threat.

Winston Peters, Finance Minister and leader of the NZ First Party in the coalition government, contemptuously dismissed widespread concern about the affordability of home ownership. In a statement intended to imply that owning a house should no longer be considered important, he sneered that "the last people to eat their house were Hansel and Gretel".

Peters also claimed that the currency turmoil was caused by the wilful failure of ordinary individuals and families to save money. He went on to re-float his scheme for compulsory retirement savings, decisively rejected last year in a referendum, although this was rejected by the Prime Minister and leader of the National Party, Jenny Shipley.

A spokesman for the Reserve Bank weighed in as well, claiming that interest rates were so high because "New Zealanders are addicted to being in debt". Such arguments seek to blame the working people for the massive balance of payments deficit and divert attention away from the underlying crisis in the capitalist system.

First, the reality is that workers have been forced into debt by the onslaught on jobs and living standards since 1984. Mass unemployment, the slashing of wages and benefits, the destruction of the welfare state and the introduction of "user pays" policies in health and education, have made it impossible for working class families to survive without going into debt. The ratio of household debt to annual disposable income has risen sharply from 42 percent in 1990 to almost 90 percent in

1998.

Second, the dramatic impact of the international monetary crisis on New Zealand underlines the historical weaknesses of the country's capitalist economy. Reliant on a narrow base of commodity exports, and with its small manufacturing sector decimated over the past decade by the globalisation of production, the ruling class has depended on overseas capital for investment and the expansion of profit. This has been attracted by selling off government assets and running high interest rates.

The NZ dollar's collapse will intensify the predicament. Banks which have borrowed offshore will have to refinance maturing loans at much higher rates, and on the basis of less favourable credit ratings. Increasing import costs and declining international commodity prices will swell the external deficit. This will set the scene for even deeper business and government attacks on the social position of the working class.

Prime Minister Shipley warned during the week that any intensification of the monetary crisis would force further cuts to social spending. High on the list is $70 million previously earmarked for financial assistance to "at risk" families. Such families are those facing severe difficulties with housing and health, and include many single-parent households. A staggering 45 percent of households are deemed to be "at risk," with 5 percent defined as being "severely" at risk.

Peters and the NZ First Party campaigned at the 1996 election on a populist and nationalist platform of opposing the right-wing trajectory of the ruling National Party government, big business and overseas financiers. The party gained considerable support among those who had been badly hit by the slashing of benefits and cuts to health and welfare, particularly the elderly and Maori. Having joined the government, NZ First is in the forefront of this onslaught.

For its part, the opposition Labour Party has called for a "review" of monetary policy and a reduction of the government's fiscal surplus. Having initiated the program of government job-shedding, privatisation and spending cuts in the 1980s, the Labour leaders are cynically recasting their image.

They are proclaiming the need for a so-called Third Way between the excesses of the free market and the economic protectionism of the post-war period, increasingly looking towards the policies of the Clinton and Blair governments. These regimes have surpassed conservative administrations in slashing welfare spending while projecting a "caring" face. The Labour Party's major activity last week was to sponsor a visit by former Labor Secretary in the Clinton administration, Robert Reich.